

Technical Update

February 2020, Part II

Instruction on Implementation of Tax Incentives for Small and Medium Enterprises (SMEs)

(Prakas No. 159 Prk, dated 17 February 2020)

The Ministry of Economy and Finance (MEF) issued Prakas No. 159 Prk dated 17 February 2020 to guide the implementation of the tax incentives for SMEs as provided for in Sub-Decree No. 124 SD.PrK. dated 2 October 2018 as well as to provide the conditions and the procedures to request for such tax incentives.

We have summarized the tax incentives and procedures as follows:

	Summary
Scope	<p>SMEs covered under the scope of this Prakas are for:</p> <ol style="list-style-type: none"> 1. Production of agricultural or agro-industrial products; 2. Production and processing of food; 3. Manufacturers which produce domestic consumer goods, recycle waste and produce goods for the tourism sector; 4. Manufacturers which produce finished products or assemble parts to supply other manufacturers; 5. Research and development of information technology (IT) including services for management through IT systems which are considered innovative; and 6. Enterprises located in the SME cluster and enterprises which develop the area. <p><i>*Excluding any sector which affects social security, health and the environment.</i></p>
Tax incentives	<p>Tax on Income (ToI) exemption for a 3 year period*; or 5 year period* if the enterprise meets any condition below:</p> <ul style="list-style-type: none"> • uses 60% raw material from local sources; or • employs 20% more staff; or • is located in the SME cluster. <p><i>* Counting from the registration date for new SMEs or for existing SMEs (which already completed tax update) from the effective date of this Prakas.</i></p> <p>Prepayment of ToI and Minimum Tax exemption during this period.</p> <p>Allowable deductions as follows:</p> <ul style="list-style-type: none"> • 200% of expenses on IT accounting systems; • 200% of expenses on training for accounting or technical skills for employees; and • 150% of investments on machine or technical equipment which is innovative to serve and improve productivity.

Summary (Con't)	
Conditions	SMEs which obtain the tax incentives must be registered with the tax administration or completed tax update in accordance with the law and provisions in effect and covered under the scope of this Prakas (refer to above).
Requests and approvals	<p>New SMEs must complete the request form on the GDT website, www.tax.gov.kh or complete the written-form SME TIC which the GDT provides, during the tax registration.</p> <p>Existing SMEs must complete the request form on the GDT website, www.tax.gov.kh or complete the written-form SME TIC which the GDT provides, then submit to the GDT or the Provincial-Khan tax branch.</p> <p>The GDT shall review and decide on the request then notify the enterprise within 7 to 10 working days after receipt. The GDT can deny the request should the enterprise not meet the conditions of this Prakas or if the enterprise does not provide sufficient required documents.</p>
Compliance	<p>The SMEs must maintain proper accounting records and declare annual taxes as determined by the tax administration even while exempted and must declare all other monthly and annual taxes in accordance with the laws and provisions in effect.</p> <p>The tax incentives may be withdrawn in the following cases:</p> <ol style="list-style-type: none"> 1. the enterprise fails to comply with tax obligations; 2. the enterprise changes activity from the scope of this Prakas; and 3. the enterprise changes address or owner without notification to the tax administration. <p>SMEs with withdrawn tax incentives shall face penalties in accordance with the laws and provisions on taxation in effect.</p>

The Prakas shall be effective from the signature date of 17 February 2020 onwards.

Our comments:

This should be a much-welcomed tax update for existing SMEs and those seeking to establish one in the covered sectors, and it is clearly intended to encourage growth. The requirement to gain tax incentives is simply to keep in compliance with the tax law and provisions which all registered enterprises are required to ensure that they meet.

Threshold Annual Tax on Income and Threshold for Monthly Salary Tax

(Sub-Decree No. 09 SD.Prk, dated 13 February 2020)

A Sub-Decree has been issued, dated 13 February 2020, to officially determine the new threshold for taxable income earned by a physical person, sole proprietorship and shares from a partnership subject to Tax on Income (ToI) and the new threshold for salary subject to salary tax.

The thresholds of income subject to annual ToI are as follows:

No.	Threshold of income subject to annual tax (Riel)			Tax Rate	
1	From	0	to	16,000,000	0%
2	From	16,000,001	to	24,000,000	5%
3	From	24,000,001	to	102,000,000	10%
4	From	102,000,001	to	150,000,000	15%
5			over	150,000,000	20%

The thresholds of salary subject to monthly salary tax are as follows:

No.	Threshold of income subject to annual tax (Riel)				Tax Rate
1	From	0	to	1,300,000	0%
2	From	1,300,001	to	2,000,000	5%
3	From	2,000,001	to	8,500,000	10%
4	From	8,500,001	to	12,500,000	15%
5			over	12,500,000	20%

The Sub-Decree is effective from the signature date of 13 February 2020 onwards.

Our comments:

Further to the update from the Law on Financial Management for the year 2020, this Sub-Decree finally provides the official update to determine the new thresholds for both income tax for physical persons, sole proprietorships and shares from partnerships and salary tax for employees and workers. Of note, the increase in the non-taxable salary portion should be good news for workers and employees.

It should be noted that while the income threshold is updated yet again, there is still no official mechanism or procedure for individual persons to declare their income for the annual ToI yet. We expect the MEF or the GDT to issue instructions on the procedure and forms for this sort of individual income tax when they are ready to implement it, which may not be this year.

Effective Implementation of Double Taxation Avoidance Agreement with Hong Kong

(Prakas No. 117 Prk, dated 7 February 2020)

The MEF issued Prakas No. 117 Prk dated 7 February 2020, to implement effectively the Double Taxation Avoidance (DTA) agreement between the Royal Government of Cambodia and the Government of the Hong Kong Special Administrative Region (SAR), of China.

The DTA shall be effective starting from 1 January 2020 onwards.

Our comments:

With the addition of the effective date of the DTA with Hong Kong above, Cambodia now has DTA agreements in effect with six partners including Singapore, China, Brunei, Thailand, Vietnam and the Hong Kong SAR.

Cambodia has also signed DTA agreements with Indonesia, Malaysia and South Korea which as at the date of this publication are still pending ratifications.

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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